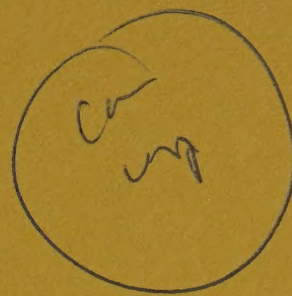


AR79

Annual Report 1971



Exquisite Form

BRASSIERE (CANADA) LIMITED



EXQUISITE FORM SALUTES MISS CANADA 1972

Newly crowned Miss Canada 1972, Donna Sawicky, exemplifies the beauty, talent, and charm of the Canadian women who have discovered the "Natural Look".

Exquisite Form is pleased that its products have been officially selected as the exclusive inner fashions of the Miss Canada Pageant.

During 1972, Miss Canada will be travelling across Canada on behalf of Exquisite Form and Lady Manhattan, making personal appearances in major department stores, telling Canadian women the Exquisite Form story.

The Miss Canada Look is the Natural Look by Exquisite Form.



FINANCIAL HIGHLIGHTS

(in thousands of dollars except for per share results)

	Twelve Months Ended June 30, 1971	Twelve Months Ended February 28, 1970 (restated)
Net sales	\$13,596	\$12,243
Net earnings		
before extraordinary items	347	(58)
after extraordinary items	347	(111)
Net earnings per common share after preference share dividends		
before extraordinary items52	(.17)
after extraordinary items52	(.27)
Working capital	2,481	2,859
Fixed asset additions (net)	418	195
Shareholders' equity	4,411	4,196

TO OUR SHAREHOLDERS:

We are pleased to report that operations for the year ended June 30, 1971 proceeded satisfactorily and resulted in general improvements in the Company's overall performance.

FINANCIAL:

In 1970, the Company changed its fiscal year end from February 28th to June 30th, and figures are presented for the four month period ended June 30th, 1970. For comparative purposes on a twelve month basis figures are included for the twelve months ended February 28th, 1970. The figures for the periods ended February 28th, and June 30th, 1970 have been restated where applicable, to conform with current accounting presentation.

Consolidated sales were \$13,596,000 compared to \$3,968,000 for the shortened fiscal period last year, and \$12,243,000 for the twelve month period ended February 28th, 1970.

Net earnings amounted to \$347,000 or 52 cents per share in 1971 compared to a restated loss of \$114,000 for the four month fiscal period last year.

Plant and equipment expenditures, long term debt reduction and advances to affiliates caused a reduction in working capital to \$2,481,000 at June 30, 1971 compared to \$2,675,000 a year earlier.

OPERATIONS:

Our Canadian manufacturing and sales organization is experiencing a resurgence of activity as the fashion world adjusts to longer hem lengths enabling more and more women to wear girdle products for firmer control and more flattering contours. We are meeting this opportunity with new designs and marketing approaches and are gratified by the results to date.

Our brassiere sales have increased, particularly from the demand for our new fabrics and styles which have been designed to achieve a soft, natural look. We shall continue to cater to the many new market opportunities that are emerging in our industry to complement the rapidly changing trends in women's fashions.

Our advertising approach this year will feature Miss Canada whose endorsement our products have received. A campaign including television, newspapers and major magazines has already commenced.

Our operations in South America, the United Kingdom and Europe are responding to the same type of accelerated demand for both brassieres and girdles. In West Germany, the operations are progressing very favourably with increased production

activity. Improvements in sales volumes were recorded in England, where our markets continue to expand. In Venezuela, the merger of Exquisite Form and Sel-Fex is proving to have been beneficial, with the combined operation completely integrated and making very satisfactory progress. Certain assets of both parties have been written down retroactively to reflect reductions in values, realized through integration.

Production of women's shirts under the well known Lady Manhattan label has increased substantially as a result of our new marketing program which has achieved wider distribution in sportswear departments across Canada. Women's shirts have achieved a dominant role in today's fashion wardrobe as accessories for skirts, suits, blazer jackets and pants. The development of new fabrics and styles has successfully popularized Lady Manhattan shirts in virtually all age groups. We are confident that our on-going program of aggressive sales and merchandising will enable Lady Manhattan to stay in the forefront of the women's shirt industry.

Natural complements for today's shirt styles, as well as other fashions, are scarves and ties which lend versatility and flair to any outfit. We have therefore expanded our range of scarves by Vera, and have also added a line of belts

by the same designer. Sales of these accessories have been most gratifying and are expected to continue their upward trend.

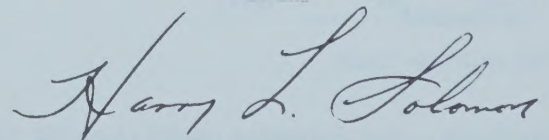
Our 50 per cent owned subsidiary in Florida, Albion Realty and Mortgage, Inc., has continued to increase its activities in the housing market in Miami, with year end results that have improved over last year.

MANAGEMENT:

This year's operational and financial achievements have been the result of aggressive management planning on a long-term basis. We believe that your Company has just begun to reap the potential benefits inherent in our overall operations.

To the management team, and to all employees and associates, I express the appreciation of the Board on behalf of all shareholders.

Respectfully submitted

A handwritten signature in dark ink, reading "Harry L. Solomon". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Harry L. Solomon,
President.

Toronto, November 2, 1971.

CONSOLIDATED STATEMENT OF EARNINGS

	Twelve Months Ended June 30, 1971	Four Months Ended June 30, 1970 (restated)	Twelve Months Ended February 28, 1970 (restated)
	(thousands of dollars)		
Revenue			
Net sales	\$13,596	\$ 3,968	\$12,243
Other income	42	11	45
	13,638	3,979	12,288
Expenses			
Cost of sales and expenses	12,724	3,863	11,465
Depreciation and amortization (note 12)	169	50	170
Interest on long-term debt	206	63	148
Foreign exchange translation (note 1)	(20)	62	(25)
Income taxes (note 7)	314	88	228
	13,393	4,126	11,986
Earnings (loss) from operations	245	(147)	302
Income (loss) from investments (notes 2 and 3)	102	33	(360)
Earnings (loss) before extraordinary charges	347	(114)	(58)
Extraordinary charges	—	—	(53)
Net earnings (Loss)	\$ 347	\$ (114)	\$ (111)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Twelve Months Ended June 30, 1971	Four Months Ended June 30, 1970 (restated)	Twelve Months Ended February 28, 1970 (restated)
	(thousands of dollars)		
Balance at beginning of year (note 9)			
as originally reported	\$ 2,156	\$ 2,379	\$ 2,487
prior period adjustments	(401)	(505)	(467)
as restated	1,755	1,874	2,020
Net earnings (loss)	347	(114)	(111)
	2,102	1,760	1,909
Dividends — first preference shares (June 30, 1971 — 60¢, June 30, 1970 — 15¢, February 28, 1970 — 60¢)	19	5	19
— second preference shares (February 28, 1970 — \$1.25)	—	—	16
	19	5	35
Balance at end of year	\$ 2,083	\$ 1,755	\$ 1,874

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

	Twelve Months Ended June 30, 1971	Four Months Ended June 30, 1970	Twelve Months Ended February 28, 1970
		(restated)	(restated)
		(thousands of dollars)	
SOURCE OF FUNDS			
Operations			
Net earnings (loss)	\$ 347	\$ (114)	\$ (111)
Add (deduct)			
depreciation and amortization	169	50	170
income from investments	(102)	(33)	360
extraordinary items	—	—	26
deferred income taxes	15	7	(1)
	429	(90)	444
Capital stock	1	5	652
Loan receivable	80	—	(320)
Notes and mortgages payable	171	—	800
	681	(85)	1,576
USE OF FUNDS			
Fixed assets, less disposals	418	22	195
Long-term debt	280	44	263
Advances to affiliates	142	28	99
Exquisite Form Brassiere (Great Britain) Limited — acquisition of 50% interest	—	—	800
Conlus-Confeccoes Lusas Limitada — acquisition	—	—	45
Redemption of second preference shares	—	—	650
Cash dividends	19	5	35
Other	16	—	(10)
	875	99	2,077
REDUCTION IN WORKING CAPITAL	(194)	(184)	(501)
WORKING CAPITAL AT BEGINNING OF YEAR			
as originally reported	\$ 2,654	\$ 2,838	\$ 3,423
prior period and other adjustments	21	21	(63)
as restated	2,675	2,859	3,360
WORKING CAPITAL AT END OF YEAR	\$ 2,481	\$ 2,675	\$ 2,859

CONSOLIDATED BALANCE SHEET

ASSETS

	June 30 1971	June 30 1970 (restated)
(thousands of dollars)		
Current		
Cash	\$ 48	\$ 153
Accounts receivable	2,737	2,323
Short-term deposits and investments	219	131
Inventories — lower of cost and net realizable value	4,179	4,302
Prepaid expenses	135	171
Loan receivable — current portion	80	80
	<u>7,398</u>	<u>7,160</u>
Fixed — at cost		
Land and buildings	576	333
Equipment and leasehold improvements	2,100	1,948
	<u>2,676</u>	<u>2,281</u>
Less: accumulated depreciation (note 12)	1,513	1,393
	<u>1,163</u>	<u>888</u>
Other		
Loan receivable	240	320
Non-consolidated affiliates — investment (notes 2, 3 and 4)	986	883
— advances	257	115
Other investments	29	27
Excess of cost over book value of shares in subsidiary companies	1,321	1,321
Deferred charges	50	66
	<u>2,883</u>	<u>2,732</u>
	<u><u>\$11,444</u></u>	<u><u>\$10,780</u></u>

On behalf of the Board:
Garson Reiner, Director
Harry L. Solomon, Director

LIABILITIES

	June 30 1971	June 30 1970 (restated)
(thousands of dollars)		
Current		
Bank indebtedness (note 5)	\$ 2,595	\$ 2,266
Accounts and notes payable	1,732	1,337
Owing to parent company	172	77
Income taxes payable (note 7)	172	341
Current portion of long-term debt (note 5)	246	464
	<u>4,917</u>	<u>4,485</u>
Non-current		
Notes and mortgages payable (note 5)	656	668
Sinking fund debentures (note 6)	1,425	1,525
Deferred income taxes (note 7)	35	20
	<u>2,116</u>	<u>2,213</u>
SHAREHOLDERS' EQUITY		
Capital Stock (note 8)		
Preference shares	318	318
Common shares	2,010	2,009
Retained earnings	2,083	1,755
	<u>4,411</u>	<u>4,082</u>
	<u>\$11,444</u>	<u>\$10,780</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, JUNE 30, 1971

1. Accounting principles

Wholly Owned Subsidiary Companies — Consolidated

Exquisite Form Brassiere Ltd. G.m.b.H. — West Germany
 Feminine Form Miederwaren G.m.b.H. — West Germany
 Conlus-Confeccoes Lusas Limitada — Portugal
 Exquisite Form Brassiere de Colombia Ltda. — Colombia
 Exquisite Form Brassiere (Great Britain) Limited — Great Britain
 Gossip Limited — Great Britain
 Lady Manhattan (Canada) Limited — Canada
 Dunley Shirtmakers (Canada) Limited — Canada

All significant inter-company loans and transactions have been eliminated on consolidation. Foreign currencies have been translated into Canadian funds at free rates on the following bases:

Current assets, current liabilities and long-term debt — at the prevailing year end rate.

Fixed assets and other assets — at the average cost in the year in which acquired.

Revenue and expenses (including exchange gains or losses) — at the average rate for the year.

Certain countries have exchange restrictions but in general their currencies are convertible into Canadian dollars at free rates of exchange upon approval by their Central Bank. No provision has been made in these financial statements for any withholding taxes that may be payable on future distributions of retained earnings from foreign subsidiaries and affiliates. Colombia has restrictions on the payment of dividends.

The Company, its subsidiaries and affiliates changed their fiscal year ends from February 28 to June 30 commencing in 1970.

The consolidated statements of earnings, retained earnings and source and use of funds for the 12 months ended February 28, 1970 are shown for comparative purposes only and have been restated to include Exquisite Form Brassiere de Venezuela C.A. and Elasticos de Venezuela C.A. on an investment income basis for comparison with Sel-Fex C.A. (notes 2 and 3).

2. Investment in affiliates

	June 30, 1971	June 30, 1970 (restated)
50% Owned — at cost plus equity in retained earnings		
Sel-Fex C.A. — Venezuela (note 3)	\$502,000	\$600,000
Albion Realty & Mortgage Inc. — U.S.A. (note 4)	417,000	215,000
Lawsonit Products Limited — Canada	33,000	34,000
33½ % Owned — at cost		
Exquisite Form Espana S.A. — Spain	34,000	34,000
The Company's share of the unaudited loss was \$8,000 for 1971 (four months 1970 — \$1,000 profit) and its share of net equity since acquisition was \$6,000 (1970 — \$14,000)		
	<u>\$986,000</u>	<u>\$883,000</u>

3. Sel-Fex C.A. — Venezuela (note 2)

By agreement effective in February, 1970, the Company merged with Sel-Fex C.A. upon the following terms, inter alia:

1. The transfer of the net assets of its Venezuelan subsidiaries for 50% of the issued capital stock of Sel-Fex C.A.
2. The participation in net profits to the extent of 32½ % in 1971, 37½ % from 1972 to 1990 and 50% thereafter, and in net losses to the extent of 50%.
3. Both parties were required to pay any differences between the book values of current assets and that which is finally realized.

Pursuant to this agreement, the auditor of Sel-Fex C.A. in Venezuela has charged shareholders' accounts with operating and realization losses, the Company's portion of which has been reflected in this statement, as described in note 9. These charges have not been accepted by the shareholders of Sel-Fex C.A.

The auditor was appointed during the year and did not verify certain assets prior to his appointment.

The auditor in Venezuela has not evaluated (nor has he any reason to doubt) the collectability of a loan of \$170,000 to a minority shareholder of Sel-Fex C.A.

Because of the above, the auditor has given an opinion on the balance sheet subject to these matters and has denied an opinion on the statements of earnings (of which the Company's share of the net loss is \$98,000 for the year) and retained earnings and on shareholders' accounts.

4. Albion Realty & Mortgage, Inc. (note 2)

House sales made by Albion require it to accept an instalment note, secured by a second mortgage on the property sold, for that portion of the contract price in excess of the first mortgage assumed by the buyer and the down payment, which generally approximates 5% of the sales price. For financial reporting purposes, the sale is recorded at the time of closing when title ordinarily passes. Based on collection experience to date, management has made what it considered to be an adequate provision for possible future losses on these mortgages receivable.

5. Assets pledged

The accounts receivable, inventories and certain fixed assets of the Company and its subsidiaries have been pledged as security for the bank loans.

\$246,000 and \$171,000 of non-current notes and mortgages payable are repayable in West German Marks and Portuguese Escudos respectively (1970 — \$348,000 and nil).

6. Sinking fund debentures

The 6¼ % Sinking Fund Debentures, Series A, maturing December 1, 1982, were issued under a trust indenture dated November 15, 1962 which provided for the following conditions, inter alia:

- (a) Specific pledge of shares of subsidiaries owned by the Company, a first floating charge on all assets whatsoever and restrictions on dividends.
- (b) Redemption prior to maturity at a premium which reduces annually.
- (c) Establishment of a sinking fund for the retirement of \$100,000 aggregate principal amount of Series A Debentures on December 1 from 1971 to 1981 inclusive. To date, the Company has elected to purchase debentures for cancellation in lieu of setting up a sinking fund.

By supplementary indenture dated January 19, 1971, the Company received authority to convey the shares of its German subsidiaries to the English subsidiary and to make a public offering of the shares of the English subsidiary subject to retaining at least ⅓ of the control in the English companies. Funds obtained in the transaction may be used for general corporate purposes.

7. Income taxes

At June 30, 1971, the Company has losses available to be carried forward for which potential tax recoveries of approximately \$100,000 (1970 — \$58,000) has not been recognized in the accounts.

The deferred income taxes are in respect of depreciation claimed for income tax purposes which are in excess of the amounts recorded in the accounts.

8. Capital stock

	June 30 1971	June 30 1970
Authorized		
181,814 First preference shares of the par value of \$10 each, issuable in series		
7,000 5% non-cumulative, non-voting, redeemable second preference shares of the par value of \$50 each		
1,117,812 Common shares without par value		
Issued and fully paid		
31,814 6% cumulative, redeemable, first preference shares, Series A	\$ 318,000	\$ 318,000
629,316¼ Common shares (June 30, 1970 — 629,176¼)	2,010,000	2,009,000
	<u>\$2,328,000</u>	<u>\$2,327,000</u>

Options

The Company has granted options to key employees to purchase an aggregate of 20,000 common shares, each cumulatively exercisable over five years at a subscription price of \$5.25 per share in progressive annual instalments of 20% of the number of shares optioned. During the year 140 shares were issued under this plan (1970 — 1,040).

The Company has granted an option to an employee of Albion Realty & Mortgage, Inc. to purchase an aggregate of 15,000 common shares at a price of \$7.00 per share until 1974, conditional upon certain levels of profitability of Albion.

On April 29, 1971, the Company granted The Summit Organization, Inc., the parent company, an option to purchase 100,000 common shares at a price of \$8.00 per share in return for a line of credit guaranteed for Albion. These options expire on November 25, 1975.

9. Prior years' adjustments

	June 30, 1971	June 30, 1970
Sel-Fex C.A. (note 3)		
Indemnity payments and moving expenses prior to the merger	\$ —	\$ 191,000
Current asset adjustment and deferred charge write-offs prior to the merger	289,000	289,000
Restatement of prior years' earnings	46,000	25,000
Deferred taxes set up previously (note 7)	58,000	—
Other	8,000	—
Total prior years' adjustments	<u>401,000</u>	<u>505,000</u>
Opening retained earnings		
as originally reported	2,156,000	2,379,000
as restated	<u>\$1,755,000</u>	<u>\$1,874,000</u>

10. Long-term leases

The Company and its subsidiaries have entered into leases expiring through 1982 depending upon the exercise of certain options, with a maximum rental payable in any one year of \$206,000. During the year ended June 30, 1971, the Company received rental income of \$34,000 (1970 — \$10,000 — four months) for a portion of its premises.

Notes (cont'd.)

11. Executive Remuneration

Aggregate direct remuneration paid to directors and senior officers in the year totalled \$221,000 (1970 — \$62,000 — four months).

12. Depreciation and amortization

<u>Kind of Asset</u>	<u>Canada</u>	<u>Basis</u>	<u>Elsewhere</u>
Buildings	—		3 — 5% straight line
Equipment	20% — 30% reducing balance		10 — 30% straight line
Leasehold Improvements	Straight line basis over term of lease and first option		10% straight line

13. Earnings per share

Earnings per share have been calculated on the weighted monthly average of shares outstanding during the year, after deduction of the dividends on first and second preference shares.

	<u>(Twelve Months) 1971</u>	<u>(Four Months) 1970</u> (restated)	<u>(Twelve Months) 1970</u> (restated)
Earnings per common share			
— before extraordinary charges	\$.52	\$ (.19)	\$ (.17)
— after extraordinary charges	.52	(.19)	(.27)
Fully diluted earnings per common share	.48		

Fully diluted earnings per common share have been calculated after giving effect to the exercise of all outstanding options and imputing bank loan interest to the proceeds.

14. Contingent liabilities and subsequent events

The Company is contingently liable for an income tax reassessment for 1965 of approximately \$150,000. In the opinion of tax counsel, this assessment can be successfully defended and accordingly, no provision has been made in the financial statements.

The Company is defendant in an action for \$400,000. Legal counsel is of the opinion that this action is without merit and, accordingly, no provision has been made in the financial statements.

The Company is contingently liable for bank loans and guarantees of approximately \$640,000 (1970 — \$300,000).

The Company is contingently liable for a bank guarantee to the Portuguese customs authorities of approximately \$900,000 (1970 — \$370,000) for materials of the Company sent to Portugal for manufacturing. To date, all completed materials have been re-exported from Portugal, and no customs duties are payable.

AUDITORS' REPORT TO SHAREHOLDERS

To the Shareholders of
Exquisite Form Brassiere (Canada) Limited

We have examined the consolidated balance sheet of Exquisite Form Brassiere (Canada) Limited as at June 30, 1971 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination of the financial statements of Exquisite Form Brassiere (Canada) Limited (the parent company) and those subsidiaries and affiliates of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries and affiliates.

In our opinion, except for the matters described in note 3, these consolidated financial statements present fairly the financial position of the companies as at June 30, 1971 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period (as restated — notes 3 and 9).

Toronto, Canada,
September 23, 1971.

WM. EISENBERG & CO.
Chartered Accountants

STATISTICAL REVIEW

(restated)

(in thousands of dollars except for per share results and dividends)

	Twelve Months Ended June 30 1971	Four Months Ended June 30 1970	Twelve Months Ended February 28 1970	1969	1968	1967
Results for Year						
Net sales	\$13,596	\$ 3,968	\$12,243	\$11,831	\$12,488	\$13,212
Net earnings						
before extraordinary items	347	(114)	(58)	(148)	117	316
after extraordinary items	347	(114)	(111)	(148)	50	316
Per Share Results						
Net earnings per common share after preference share dividends						
before extraordinary items52	(.19)	(.17)	(.32)	.19	.60
after extraordinary items52	(.19)	(.27)	(.32)	.06	.60
Financial Position						
Current assets	7,398	7,160	7,113	6,173	6,014	6,417
Current liabilities	4,917	4,485	4,254	2,813	2,909	3,413
Working capital	2,481	2,675	2,859	3,360	3,105	3,004
Long-term liabilities	2,081	2,193	2,237	1,702	1,829	1,991
Shareholders' equity	4,411	4,082	4,196	4,339	4,506	4,473
Fixed Asset Additions (net)	418	22	195	68	47	191
Dividends						
First preference shares60	.15	.60	.60	.60	.60
Common shares	—	—	—	—	—	.48
Shareholdings						
Number of first preference shares outstanding at year end	31,814	31,814	31,814	31,814	31,814	31,814
Number of common shares outstanding at year end	629,316	629,176	628,136	514,653	514,653	514,253

BOARD OF DIRECTORS AND OFFICERS

DIRECTORS

John H. Brown
Toronto

Joseph H. Gayne
Toronto

J. Howard Hawke
Toronto

Benjamin H. Oremland
New York

Miles Reben
Toronto

Garson Reiner
New York

Stephen R. Reiner
New York

Irwin Singer
Toronto

Carl M. Solomon
Toronto

Harry L. Solomon
Toronto

OFFICERS

Garson Reiner
Chairman of the Board

Harry L. Solomon
President

Miles Reben
Executive Vice-President

Joseph H. Gayne
Vice-President and Secretary-Treasurer

Irwin Singer
Assistant Secretary-Treasurer

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company, Montreal, Toronto, Winnipeg, Vancouver

AUDITORS

Wm. Eisenberg & Co., Chartered Accountants, Toronto

SOLICITORS

Solomon & Singer, Toronto

LISTED

Toronto Stock Exchange

INTERNATIONAL OPERATIONS**CANADA****Head Office**

Exquisite Form Brassiere (Canada) Limited
215 Spadina Avenue, Toronto, Ontario

Lady Manhattan of Canada
174 Spadina Avenue, Toronto, Ontario

ENGLAND

Exquisite Form Brassiere (Great Britain) Ltd.
28/30 Market Place, Oxford Circus, London, W.1

WEST GERMANY

Exquisite Form Brassiere Limited G.m.b.H.
Dornerhofstr. 19, 41 Duisburg

PORTUGAL

Conlus-Confeccoes Lusas, Limitada
Rua Dr. Oliveira Salazar, 37A, Almada

COLOMBIA

Exquisite Form Brassiere de Colombia Ltda.
Carrera 53A No. 10-15, Bogota

VENEZUELA

Sel-Fex C.A.
Avenida Nueva Granada, Urb. Los Rosales, Caracas

SPAIN

Exquisite Form Espana S.A.
General Aranda 28, Madrid

UNITED STATES

Albion Realty & Mortgage, Inc.
7777 Northeast Third Court, Miami, Florida

Exquisite Form



